Have Profits Kept Pace With the Cost of Living?

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THE question "Have profits kept pace with the cost of living?" seems to assume that there is, and should be, some relation between profits and the cost of living. The question seems to take for granted that justice and equity require that profits should keep pace with the increased cost of living.

Wages and the Cost of Living

There is a definite and well recognized relation between wages and the cost of living. There is general agreement among fair-minded people of all classes of society and of all kinds of economic interests, that the rate of wages should at least keep pace with the increase in the cost of living so that the standard of living of those, upon whose toil the national production depends, should be maintained. There are many indeed, particularly among the "ruling classes," who insist that there should be a rigid and unchanging relation between wages and the standard of living—that the wage earner should not be expected to improve his condition even in times of the greatest prosperity.

Social Standards for Judging Wage Rates

In fixing the rate of wages our present social and industrial standards generally assume that full justice is done to the wage earner when he is paid enough to purchase the necessaries of life. Even the highest accepted standards provide that the wage earner and his family shall have only a few of the luxuries of life and put aside some small savings for rainy days and old age. But the double economic standard of society assumes no such relation between even the most extravagant standard of living and the amount or rate of profits.

When engineers, machinists and other highly skilled workmen began to buy Fords, a large section of society at once set up a cry that economic justice had been outraged and a reduction of wages was in order. But society does not seem at all outraged by the great increase during the war of families who maintain half a dozen homes with a retinue of servants and a fleet of motor cars at each home.

There have been innumerable investigations to determine what is the minimum amount on which a laborer can support his family "in health and reasonable comfort," but no one has ever suggested a government inquisition to discover even the maximum amount which a promoter or speculator should be permitted to lavish upon the maintenance of his family in idleness and extravagant luxury.

Family Budgets of Millionaires and Wage Earners.—Our government investigations would be more effective if we were sometimes to leave the homes of the workers and go into the homes of the rich. The family budgets of our twenty-five thousand millionaires would be immensely more valuable and instructive than the budgets of any number of wage earners. The budgets

of the workers, at best, merely tell us the amount of surplus or deficit as compared with a decent standard of living. The budgets of the rich would tell us where to get the money to meet the deficits in certain classes of wage and salary earners' budgets and to provide for a hundred pressing public needs.

Wages versus Rate Arbitrations.—There is a splendid field for such an investigation right now. The government in the railroad bill has undertaken to fix rates at a level that will yield at least 5½ and probably 6 per cent upon the value of the roads. As the rate of interest on outstanding railroad bonds averages only 4½ per cent, the 6 per

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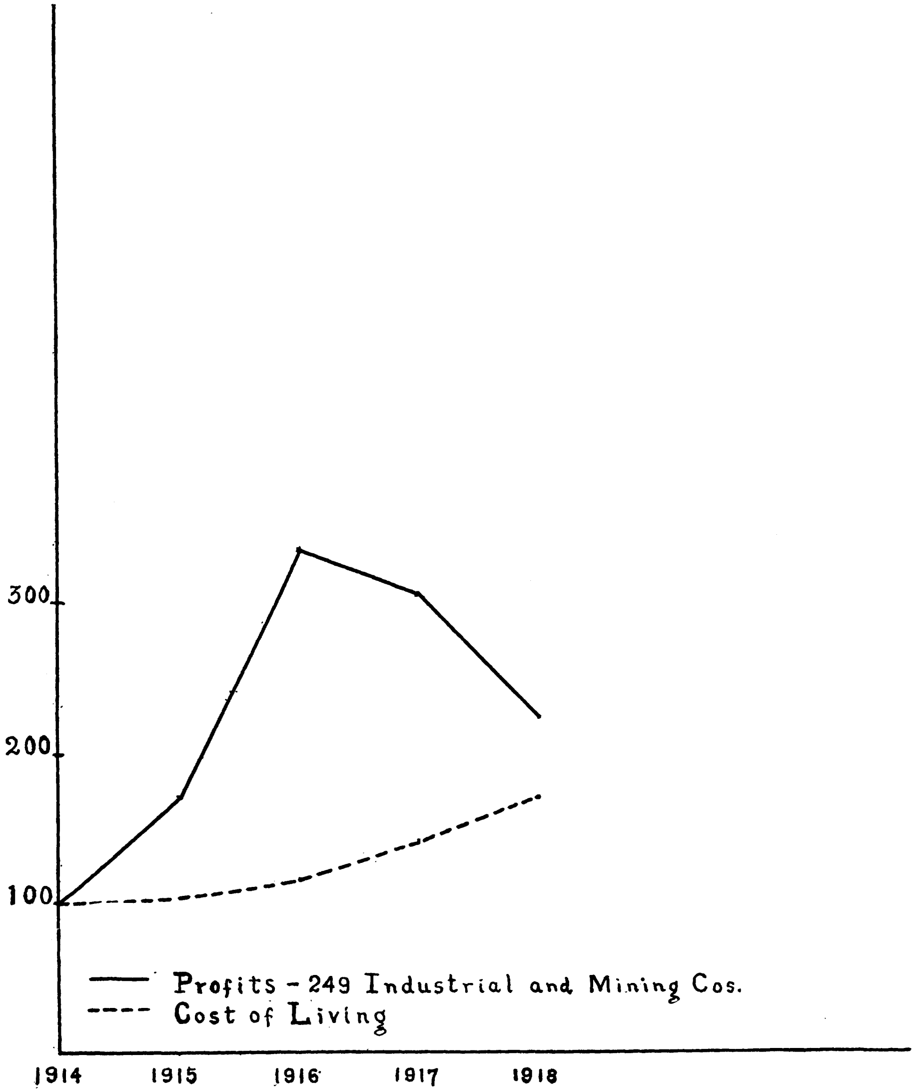
Relative Index Numbers of Cost of Living and Profits of Industrial and Mining Corporation.



cent rate level will provide around 8 per cent on stocks—just about twice the rate which the government pays the holders of its Liberty bonds! Surely such a generous government has the right to ask a few polite questions of its wards in finance. The financial wards, the railroad owners, will soon present to the Interstate Commerce Commission a pressing demand for a revision of freight rates to the new levels prescribed by Congress. The Interstate Commerce Commission has a list of the twenty largest stockholders of each of the roads who, together, own more than a majority of the stock. It is the custom in wage arbitrations to ask personal and sometimes impertinent questions with reference to what the wage earners are doing with the money which they already receive. Why should not the commission in considering the rate application do what the railroad arbitration board will do in considering a wage application—dispatch agents of the Department of Labor to the homes of the stock and bond holders to find out what income each is getting and how it is spent. If this inquiry should develop the fact that the majority of stockholders' families have money in the bank or are keeping a servant or an automobile, an adequate basis would exist for denying any increase in rates, according to the wage arbitration standards now insisted upon by the representatives of the railroad owners.

Profits and the Cost of Living

Putting aside this somewhat frivolous but perhaps suggestive line of speculation, it must be admitted that there is no relation between profits and cost of living. Profits unlike wages are not looked at primarily as a source of subsistence by the majority of those who receive them, but rather as a means of securing increased control over industrial and economic enterprises. Even among the hundreds of thousands of small stockholders widely advertised by the corporations, profits from stock investments are usually considered quite apart from other sources of income, either as "velvet" which can be squandered in luxuries or as the basis of fortunes which they hope to build.

Profits from Bonds.—There are indeed a considerable number of persons, chiefly widows, orphans and retired business men, whose incomes are derived almost entirely from interest and dividends. With such persons there is, of course, a close relation between their cost of living and the return upon their investments. They cannot spend any more than they receive. If their investment returns are stationary in a period of rapid advance in the cost of living, their family budgets must, of course, suffer. It should, however, be noted that in this case we are dealing not with profits but with the rate of return on certain classes of securities which may be absolutely fixed, as in the case of bonds and preferred stocks, so that it bears no essential relation to corporate profits. The purchasing power of these investment returns has greatly declined, although the profits of the corporations out of which they are paid may have increased very greatly.

Profits from Public Utility Stocks

It is a striking and ironical fact that almost the only failures of investment

returns to increase as fast or faster than the cost of living during the war occurred in those lines of securities in which these capitalistic dependents, widows, orphans, and retired business men, have invested much of their capital—bonds, preferred stocks and public utility securities. Such securities were classed as "safe" investments before the war and it was there that trustees and executors delighted to invest the estates of widows and orphans. Now, the purchasing power of the fixed rate of bond interest has been cut in two while the dividends of street railway and many other public utility stocks have practically ceased.

In the field of capital, as in the field of labor, all great social changes, such as a rapid rise in prices, inevitably fall most heavily upon those least able to bear their burdens.

There has been much grumbling among railroad stockholders because earnings on railroad securities have been stationary under the standard return guaranteed by government control. They say they are receiving only the pre-war earnings while the cost of living has been constantly rising. This sounds impressive until it is remembered that the standard return is compared only with 1916 and 1917, the banner railroad years. If we go back to real pre-war conditions, as is usually done with wages, and compare the standard return with railroad earnings of 1912–13–14 and remember that the standard return is a guarantee while the pre-war railroad earnings were a gamble, it will be seen that there is no cause for grumbling.

Profits of Industrial Corporations

When we leave this relatively narrow field of bonds and public utility stocks, however, and examine the financial reports of other classes of corporations we see that profits, both in amounts and rates, have risen far above even the enormous increases in the cost of living.

The most valuable basis for such a comparison is an exhibit recently presented to the President's Coal Commission by the coal operators. This exhibit is a compilation of the profits of 249 industrial and mining companies for each year from 1911 to 1918. The data for the first three years is somewhat fragmentary and unsatisfactory owing to the difficulty of securing corporation reports as well as to the fact that a large number of the corporations have been organized or completely reorganized since that time.

The purpose of these elaborate tables was to prove that, as profiteers, the coal operators were no more guilty than other industries. It is a remarkable exhibit.

In the exhibit the corporations are grouped by industries. I have, however, prepared a summary table which in a few figures tells the whole story:

PROFITS OF 249 LEADING AMERICAN CORPORATIONS

	Amount	*Per cent on Capital Stock*
1914	$368,387,134	7.2
1915	663,375,559	12.3
1916	1,420,369,738	24.2
1917	1,336,821,943	21.9
1918	927,377,714	16.1

It should be noted that in the case of nearly all corporations the amount shown in the table represents the net amount available for dividends after the payment of interest and provision for all taxes including income and

excess profits taxes. In some cases no provision was made for taxes but this is more than offset by the inclusion of excessive reserves for depreciation, taxes and other items by the majority of corporations. It should also be noted that the figures for 1918 cover only 182 corporations, as the reports for 67 were not available. This explains the apparently great drop in profits in 1918. The percentage earned on capital stock is, however, accurate and may be accepted as representative, as it is computed by comparing capital stock and profits of identical corporations.

Corporate Profits and the Cost of Living.—Accepting these figures as a representative index of the earnings of industrial and mining companies, comparison may be made with the standard cost of living index of the Bureau of Labor Statistics:

	Cost of Living	*Profits*
1914	100	100
1915	103	171
1916	117	336
1917	141	304
1918	172	224

These figures effectively answer the question "Have profits kept pace with the cost of living?"

Profits not only kept pace with the cost of living during the war period, but they also doubled and trebled its increase. The comparison is graphically shown by the diagram on page 158.

Some interesting deductions may be drawn if we calculate for each year the amount of surplus profits for these 249 corporations over the increased cost of living. For example, in 1916 the cost of living index stood at 117, the profits index at 336. After allowing for the increase in the cost of living,

therefore, there was in 1916 a surplus of profits of 219 points, equal to more than two years of profits at the rate of 1914. Taking the four war years 1915–18 together we find that the surplus in the profits index over the cost of living index totals 502 points. Even after allowing for the maintenance of the purchasing power of profits during the war years there is sufficient surplus to maintain the pre-war basis of profits over a period of five years. In other words, even if these corporations should make no profits whatever for *five* years, an average rate of profit equal to that of 1914 could be maintained out of their war surpluses.

I have also compiled from the same exhibit a table showing the average rate of profit earned on capital stock in various lines of industry. These various lines of industry are classified in two great groups, depending upon whether they manufacture primarily for farm and household use or for industrial purposes. It is interesting to note that the greatest *increase* in the rate of profits has been in industries manufacturing industrial material and equipment. This is due primarily to the fact that the rate of profit earned by the corporations manufacturing industrial material and equipment was abnormally low in 1914. The table follows.

Similar statistics drawn from a variety of sources might be presented in great volume, but no matter what source of material is used or what comparisons are made, the conclusion is inevitable. *The average rate of profit of American corporations has increased during recent years far beyond any increase in the cost of living.* During the war the increase in the rate of

profits was so much greater than the increase in the cost of living that enormous surpluses were created which may be drawn upon, if necessary, to compensate for any losses which may occur during the lean years which are likely to succeed the great industrial boom which occurred during the war.

AVERAGE RATE OF PROFIT EARNED ON CAPITAL STOCK

	1914	*1915*	*1916*	*1917*	*1918*
Farm and Household Supplies:					
Agricultural implements	6.7	8.6	9.3	12.4	9.8
Baking	7.7	6.2	6.7	8.3	8.5
Boots and shoes	1.1	8.2	14.7	19.6	17.7
Canning	4.5	9.9	13.2	32.2	14.9
Coal-Anthracite	18.6	17.2	18.3	22.9	16.9
Cotton goods	11.7	8.0	13.3	17.9	20.5
Fertilizers	10.8	5.7	9.9	8.4	13.4
Flour mills	20.8	13.8	13.1	26.8	16.5
General merchandising	5.1	12.3	16.1	14.8	13.0
Ice	2.9	3.0	4.0	5.6	6.3
Musical instruments	6.9	8.5	11.6	6.6	17.6
Petroleum	9.6	18.6	35.4	30.4	22.3
Printing and publishing	4.1	4.4	5.6	5.1	4.5
Silk	11.8	12.9	17.2	20.4	18.4
Slaughtering and meat packing	16.0	21.9	23.6	32.5	16.8
Sugar	6.4	10.2	19.1	14.4	10.7
Tobacco	11.8	13.2	15.3	13.3	16.6
Woolen and worsted	5.4	7.6	10.1	18.7	10.2
Total	9.5	12.8	19.7	20.1	15.0
Industrial Material and Equipment:					
Acids, chemical, etc.	9.1	12.6	20.1	16.5	16.7
Automobiles	8.8	18.7	20.9	14.4	11.7
Clay products	3.4	3.5	8.6	15.8	13.5
Coke (by-product)	14.4	13.3	81.9	44.5	17.9
Electrical appliances	8.4	9.9	16.7	21.5	16.3
Explosives	10.8	45.0	70.5	37.8	32.6
Glass	6.1	6.2	19.1	22.3	15.9
Iron and steel	2.8	9.6	33.9	27.5	16.1
Leather	5.5	8.0	18.0	16.6	10.1
Lumber	1.1	0.9	7.5	11.0	3.2
Miscellaneous machinery	5.9	11.1	22.7	13.5	13.9
Mining—copper	11.6	19.4	38.0	36.0	19.4
Mining—lead	6.8	15.3	22.4	19.5	16.8
Paper and wood pulp	2.1	1.7	10.7	11.9	9.0
Railway equipment	6.3	6.1	13.5	13.8	15.4
Rubber tires	9.9	14.0	14.6	19.0	21.8
Shipbuilding	3.0	5.1	8.7	22.6	30.9
Total	5.8	12.1	27.5	23.3	16.9